

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOD EDUCATION BENEFITS TRUST FUND
FINANCIAL STATEMENTS FOR FY 1992**

Report No. 93-137

June 30, 1993

DISTRIBUTION STATEMENT A
Approved for Public Release
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Department of Defense

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Acronyms

DVA
FMFIA
OMB

Department of Veterans Affairs
Federal Managers' Financial Integrity Act
Office of Management and Budget



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the DoD Education Benefits Trust Fund Financial Statements
for FY 1992. (Report No. 93-137)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin (OMB) No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to render an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

Although we were able to evaluate the internal controls and compliance with laws and regulations, we were unable to express an opinion on the financial statements. We are disclaiming an opinion on the financial statements because of a scope limitation. Management has not provided us with management and legal representation letters. The failure of management to provide the letters constitutes a limitation of scope sufficient to compel us to disclaim an opinion.

Part II discusses internal control weaknesses that require management attention. The DoD had issued conflicting guidance on when contributions should be made, and the Services' data bases had computer programming errors and contained invalid information. Also, the DoD and the Department of Veterans Affairs had not established reporting requirements over accounting information. Part III reports on compliance with laws and regulations. Except for the noncompliances reported in Part II, "Internal Controls," and omissions of financial statement information that were required by OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, the DoD Education Benefits Trust Fund complied in all material respects with applicable laws and regulations. This report contains no recommendations that are subject to resolution in accordance with DoD 7650.3; accordingly comments are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682), or Mr. John M. Seeba, Project Manager, at (703) 693-0653 (DSN 223-0653.) The distribution of this report is listed in Part IV, Appendix C.

A handwritten signature in cursive script, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 93-137
(Project No. 2FH-2009)

June 30, 1993

**AUDIT REPORT ON THE DOD EDUCATION BENEFITS TRUST
FUND FINANCIAL STATEMENTS FOR FY 1992**

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act requires an annual audit of funds such as the DoD Education Benefits Trust Fund. The DoD Education Benefits Trust Fund (the Fund) was established in 1985 by the Veterans Assistance Act of 1984, Public Law 98-525. In FY 1992, the Fund paid 144,000 participants \$170.5 million. As of September 30, 1992, the Fund's investment assets were \$675.2 million. In FY 1992 the Fund received revenue from two sources: contributions from the Services (\$41.3 million) and interest earned on Department of the Treasury securities (\$57.0 million). This Fund does not have an overall Fund manager. The Assistant Secretary of Defense (Force Management and Personnel) is designated as the policy point of contact. The Chief Financial Officer, Department of Defense, listed the Deputy Assistant Secretary (Resources and Requirements) as the signature authority for management representation letters.

Objectives. The objectives of the audit were:

- o to determine whether the DoD Education Benefits Trust Fund financial statements for FY 1992 were fairly presented, in accordance with DoD accounting policies and procedures and generally accepted accounting principles;
- o to determine whether there were adequate internal controls over the Fund to ensure that the financial statements were free of material error;
- o to assess compliance with laws and regulations for transactions and events that have a direct and material effect on the financial statements; and
- o to determine the reliability and usefulness of the financial statements.

Independent Auditor's Opinion. We are issuing a Disclaimer of Opinion on the financial statements. We did not receive management and legal representation letters we requested from the Deputy Assistant Secretary of Defense (Resources and Requirements) or legal counsel. We consider the failure of management to provide the letters significant enough to preclude us from expressing an opinion on the financial statements. We did, however, receive management and legal representations from the Department of Veterans Affairs (DVA). Because the DVA administers only a part of the overall Fund activities, we were not able to consider the DVA letters as sufficient representation for all Fund activities. Therefore, we do not express an opinion on these financial statements.

Internal Controls. The audit found material internal control weaknesses in the Services' contribution area. The DoD had conflicting guidance on when contributions should be made, and the Services' data bases had computer programming errors and

contained invalid information. Also, the DoD and the DVA had not established reporting requirements over accounting information. Part II contains our report on material internal control weaknesses identified in our audit.

Compliance with Laws and Regulations. Except for the noncompliance reported in Part II, "Internal Controls," and omissions of financial statement information that were required by Office of Management and Budget Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, the DoD Education Benefits Trust Fund complied in all material respects with applicable laws and regulations. Appendix A of Part IV lists laws and regulations tested.

Usefulness of Financial Statements. The biennial report to Congress includes information found in the financial statements and is used to measure program performance.

Management Comments. We issued draft reports of Part II, "Internal Controls," and Part III, "Compliance with Laws and Regulations," on May 14, 1993. We received comments from the Assistant Secretary of Defense (Force Management and Personnel), the Assistant Secretary of Defense (Reserve Affairs), and the Comptroller of the Department of Defense. The Assistant Secretary of Defense (Force Management and Personnel) concurred with the draft report and suggested changes, which we incorporated, to redefine the term "actuarial." The Assistant Secretary of Defense (Reserve Affairs) partially concurred with our report. Based on the Assistant Secretary of Defense (Reserve Affairs) comments, we clarified the finding related to contributions to the Fund. The Comptroller of the Department of Defense concurred with our draft reports. See Part VI for the complete text of management comments.

Table of Contents

Executive Summary	i
Part I - Independent Auditor's Opinion on the Financial Statements	1
Part II - Internal Controls	5
Part III - Compliance with Laws and Regulations	11
Part IV - Additional Information	15
Appendix A. Laws and Regulations	16
Appendix B. Organizations Visited or Contacted	17
Appendix C. Report Distribution	19
Part V - DoD Education Benefits Trust Fund Financial Statements for FY 1992	21
Part VI - Management Comments	43
Assistant Secretary of Defense for Force Management and Personnel Comments	44
Assistant Secretary of Defense for Reserve Affairs Comments	45
Comptroller of the Department of Defense Comments	48

This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 614-6303 (DSN 224-6303).

**Part I - Independent Auditor's Opinion
on the Financial Statements**

Introduction

The DoD Education Benefits Trust Fund (the Fund) was established in 1985 by the Veterans Assistance Act of 1984, Public Law 98-525, to fund participants educational benefits. In FY 1992, the Fund paid 144,000 participants \$170.5 million. As of September 30, 1992, the Fund's investment assets were \$675.2 million. In FY 1992 the Fund received revenue from two sources: contributions from the Services (\$41.3 million) and interest earned on Department of the Treasury securities (\$57.0 million). This Fund does not have an overall Fund manager. The Assistant Secretary of Defense (Force Management and Personnel) is designated as the policy point of contact. The Chief Financial Officer, Department of Defense, listed the Deputy Assistant Secretary (Resources and Requirements) as the signature authority for management representation letters.

Financial statement audits such as this one are required by the Chief Financial Officers Act of 1990. The Principal Statements of the DoD Education Benefits Trust Fund are the responsibility of the Assistant Secretary of Defense (Force Management and Personnel), the Department of Veterans Affairs, and the Defense Finance and Accounting Service. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We attempted to audit the DoD Education Benefits Trust Fund as of and for the year ending September 30, 1992. The Financial Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes and the Overview.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements, including the Notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial presentation of the statements. We believe that our audit provides a reasonable basis for our results. This financial statement audit was made between March 1992 and June 1993. The audit was performed at the locations shown in Part IV, Appendix B.

The scope of our effort was limited because the Fund management did not provide all required management and legal representation letters.

Auditing Standards

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement Program principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992. The summary of significant policies included in the Notes to the Principal Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the DoD Education Benefits Trust Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to the budget.

Disclaimer of Opinion

We requested management and legal representation letters from the Deputy Assistant Secretary of Defense (Resources and Requirements) on April 28, 1993. The representation letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. The failure of management to provide the letters constitutes a scope limitation sufficient to compel us to disclaim our opinion. Therefore, we do not express an opinion on these financial statements.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the Principal Statements described above. We have reviewed the financial information presented in management's Overview of the Fund. The information in the Overview was presented for the purpose of additional analysis. That

Independent Auditor's Opinion on the Financial Statements

information has not been audited by us; accordingly, we do not express an opinion on that information. That information is addressed, however, in our report on Compliance with Laws and Regulations (See Part III), in accordance with OMB Bulletin No. 93-06, Sections 6.a.(4), and (5).

Part II - Internal Controls

Introduction

We have audited the internal control structure of the DoD Education Benefits Trust Fund (the Fund) for the year ended September 30, 1992.

Fund managers are responsible for establishing and maintaining an internal control structure. They are required to make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that obligations and costs comply with applicable laws; that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and that revenues and expenditures applicable to Fund operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over assets.

Objectives and Scope

Our objective was to determine whether the Fund had adequate internal controls to ensure that the financial statements were free of material error. In planning and performing the audit of the Principal Statements of the Fund for the year ended September 30, 1992, we considered the Fund's internal control structure. Our purposes were to determine the auditing procedures we would use to express our opinion on the Principal Statements, and to determine whether the internal control structure provided reasonable assurance that the financial statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures; assessed the level of control risk for all significant cycles, classes of transactions, and account balances; and for those significant control policies and procedures that had been properly designed and placed in operation, performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

We classified the significant internal controls, policies, and procedures into the following five categories.

- o Contributions: DoD's policies, procedures, and internal controls for Service contributions to the Fund.

- o Actuarial: The policies, procedures, and internal controls of the DoD Actuary relating to actuarial projections, including calculation of basic costs, calculation of surpluses and deficiencies, and amortization of surpluses and deficiencies.

- o Treasury: Policies, procedures, and internal controls established by the Defense Accounting Office-Arlington, an office of the Defense Finance and Accounting Service-Cleveland Center, Cleveland, Ohio, for receiving fund

contributions, investing in securities of the Department of the Treasury of the United States, and transferring funds to the Department of Veterans Affairs (DVA).

- o Expenditures: Policies, procedures, and internal controls established by the DoD and the DVA for the transfer of funds from the DoD to the DVA and payments that the DVA makes to participants.

- o Financial Reporting: DoD policies, procedures, and internal controls for obtaining and summarizing financial information, including information from the DVA on program expenditures and other financial information.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States, and with Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Prior Audit Coverage

The General Accounting Office issued Report No. AFMD-90-30, "DoD and VA Need to Improve Operation of the Montgomery GI Bill Reserve Program," in August 1990. The report stated that the DoD did not report timely and accurate eligibility data to the DVA, that contributions to the Fund were inaccurate, that the per capita normal cost calculated by the DoD Actuary was unreliable, and that amounts owed by program participants were not collected. We also found several of those problems.

Results of Audit

We found that internal controls over Service contributions were inadequate to ensure that the financial statements were free of material errors. The DoD had conflicting guidance that was subject to interpretation on when contributions should be made, and the Services' data bases had computer programming errors and contained invalid information. Also, the DoD and the DVA had not established reporting requirements over accounting information.

We consider the above control deficiencies to be reportable conditions under generally accepted Government auditing standards established by the Comptroller General and OMB Bulletin No. 93-06. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that obligations and costs are in compliance with applicable laws; that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and that revenues and expenditures

Internal Controls

applicable to Fund operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over assets.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the statements being audited, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Contributions to the Education Fund. The DoD had issued conflicting guidance that was subject to interpretation on the requirements for making contributions to the Fund. The DoD Instruction 1322.17, "Montgomery G.I. Bill for the Selected Reserve," November 21, 1991, states that a per capita contribution is required for "...an individual not currently or formerly entitled to educational assistance..." who signs a 6-year enlistment or reenlistment contract. The instruction conflicts with Chapter 47, DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, October 6, 1987, which states that a contribution be made for "members who become eligible during the month" by signing a 6-year enlistment or reenlistment contract. Although DoD Accounting Manual 7220.9-M does not specifically state that a contribution should be made for every 6-year contract signed, several of the Service's Reserve Components interpreted the accounting manual to mean they should make contributions for all 6-year contracts signed. Other Service Reserve Components followed the DoD Instruction 1322.17 guidance by only contributing for the first 6-year contract signed. As a result, Fund contributions were inconsistent and inaccurate.

The Fund is required by law to be funded on an actuarially sound basis. The Assistant Secretary of Defense (Force Management and Personnel) has given the Comptroller of the Department of Defense (DoD Comptroller) the authority to provide guidance on financing the Fund. Because DoD Manual 7220.9-M was subject to interpretation, the Service's Reserve Components selected various methods to follow. Using different contribution criteria would directly affect the normal cost rates. The normal cost is an actuarially determined amount that the Services contribute for each 6-year contract signed. The DoD Actuary's formula for determining the normal cost is based on the premise that contributions are made for each 6-year contract signed. The DoD Actuary then adjusts the normal cost estimate by taking into account the probability that not all members who sign 6-year contracts will collect benefits. The lack of clear contribution guidance can affect the actuarial soundness of the Fund.

Accuracy of Enlisted and Officer Contract Data Bases. All Reserve Components made contributions to the Fund based on erroneous counts from computer data bases. The DoD Components' data bases (which account for 6-year enlistment and commission contracts) were not properly programmed, or data were improperly coded. The Army Reserve data base contained multiple entries and erroneous transaction codes. No Reserve Component was able to provide a list of names that corresponded to the number of individuals for whom they made contributions. Air National Guard officers were counted more than once, officers who were not eligible for the program were counted for

contribution purposes, and enlisted members who signed 6-year contracts in FY 1992 were not counted in FY 1992. For the Air Force Reserve, erroneous gain codes that did not represent eligible participants were used to retrieve data from the data base, causing an overstatement of the number of eligible individuals for whom contributions had been made. The Marine Corps Reserve did not count its Reservists who had transferred in from active duty. The Naval Reserve did not include Sea Air Mariner 2 members in the data base. As a result, Service components made million-dollar overcontributions and undercontributions to the Fund. Because the errors were so large, we could not determine the correct amounts.

Fund Reporting. The DoD and the Department of Veterans Affairs had not established reporting requirements for accounting information. This condition existed because the DoD and the DVA interagency agreement, which was drafted in 1987 but never finalized, did not address each department's responsibilities for the reporting of program accounting data. During FY 1992, the DoD transferred \$170,462,363 to the DVA for benefit payments. Although the DVA agreed to administer the program in accordance with the law, the DoD had no assurance that all funds transferred to the DVA were spent. The DVA also established accounts receivable for and collected overpayments from benefit recipients, but neither appears on DoD's accounting records. Also, the DoD and the DVA did not reconcile their accounting records to ensure that the financial statements were complete and accurate. As a result, the DoD had no assurance that Fund assets were used as required by law, or that all financial information was reported to the DoD and included in the statements.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. Except for control weaknesses relating to Fund contributions, the accuracy of the data bases, and reporting, we believe there is reasonable assurance that the internal control structure meets its control objectives.

Management Comments

We received comments on May 28, 1993, from the Office of the Assistant Secretary of Defense (Force Management and Personnel) who concurred with our draft report. We received comments on June 16, 1993, from the Office of the Comptroller of the Department of Defense who concurred with our draft report.

We also received comments from the Office of the Assistant Secretary of Defense (Reserve Affairs) on June 4, 1993. The Assistant Secretary of Defense (Reserve Affairs) partially concurred with our report, stating that the DoD Manual 7220.9-M and DoD Instruction 1322.17 are consistent with respect to component contributions to the Fund. Further, the DoD Actuary's interpretation of the contribution policy agrees with DoD Manual 7220.9-M and DoD Instruction 1322.17. See Part VI for the complete text of management comments.

Audit Evaluation of Management Comments

Based on comments from the Assistant Secretary of Defense (Force Management and Personnel) we incorporated suggested changes to clarify the definition of the Fund's actuarial activities. Based on comments from the Assistant Secretary of Defense (Reserve Affairs), we clarified our report relating to contributions to the Education Fund. We do not agree, however, that the DoD Manual 7220.9-M and DoD Instruction 1322.17 are consistent. Although the terminology used in both documents is similar, and consistency may have been intended, the Service components had interpreted the guidance differently; therefore, contributions were not based on similar criteria and clarification is needed.

Part III - Compliance with Laws and Regulations

Introduction

We tested for material instances of noncompliance with laws and regulations of the Principal Statements of the DoD Education Benefits Trust Fund (the Fund) as of and for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

Objectives and Scope

Our objective was to obtain reasonable assurance that Fund activities were conducted in compliance with laws and regulations. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements, or that the sensitivity of the matter would cause it to be perceived as significant by others.

The Assistant Secretary of Defense (Force Management and Personnel), the Department of Veterans Affairs (DVA), and the Defense Finance and Accounting Service are responsible for compliance with laws and regulations applicable to the Fund.

To obtain reasonable assurance about whether the Principal Statements were free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements, and with other laws and regulations designated by Office of Management and Budget (OMB) and the DoD (See Part IV, Appendix A, for a list of laws and regulations).

We reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA), and we compared the Fund's most recent FMFIA reports with our evaluation of the internal control system. We also reviewed and tested the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview to financial statements. Our objective, however, was not to provide an opinion on overall compliance with laws and regulations.

The audit was made in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Prior Audit Coverage

There has been no prior audit coverage relating to compliance with laws and regulations of the DoD Education Benefits Trust Fund.

Results of Audit

The Fund complied in all material respects with applicable laws and regulations. We did however, note deficiencies in the statements where information should be disclosed in accordance with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992. With respect to items not tested, nothing came to our attention that caused us to believe that the DoD Components operating the Fund had not complied, in all material respects, with applicable laws and regulations.

The statements do not report on certain information that was required by OMB Bulletin No. 93-02. Although the noncompliances were not material to the opinion, the intent of OMB Bulletin No. 93-02 requires certain information be included to improve the usefulness of the statements. The list of deficiencies is shown.

- o The Overview refers to the valuation data for FY 1991. Since the financial statements are for FY 1992, current valuation data should be used. The Overview should relate to the financial statements being presented.

- o The statements do not give the costs of administering DoD's Education Benefits program. Although costs may be difficult to determine because the program is jointly administered by the DoD and the DVA, an estimate of DoD's costs should be shown.

- o Footnote 1 should explain whether the statements were prepared using generally accepted accounting principles or another method of accounting as described in OMB Bulletin No. 93-02.

- o Transfers to the DVA were understated by \$1,148,017. On September 30, 1992, the DVA requested \$1,148,017 from the Fund. This amount was posted to the DVA accounting records in FY 1992. The \$1,148,017 was not included in the DoD's financial statements for FY 1992; instead, it was recorded in FY 1993. We believe the amount should have been posted in the DoD's accounting records for FY 1992 as a payable.

- o The financial statements do not include performance measures. A requirement of OMB Bulletin No. 93-02 is that the Overview include a discussion and analysis of the reporting entity's financial condition. The Overview for the Fund explains how the Education Benefits Program works, but does not include an analysis of the financial information in the statements. The Overview would be more useful if it included information such as the average

Compliance with Laws and Regulations

interest rate of the Fund investment portfolio and a description of its financial condition (an actuarial determination of expected payouts of benefits compared to the Fund's assets).

Part IV - Additional Information

Appendix A. Laws and Regulations

Federal Managers' Financial Integrity Act of 1982, Public Law (P.L.) 97-255

Debt Collection Act of 1982, P.L. 97-365

Chief Financial Officers Act of 1990, P.L. 101-576

OMB Circular A-123, "Internal Control Systems," August 4, 1986

OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements,"
October 22, 1992

10 U.S.C., Chapter 106 - Educational Assistance for Members of the Selected Reserve

10 U.S.C., §2006, Department of Defense Education Benefits Fund

38 U.S.C., Chapter 30, All Volunteer Force Educational Assistance Program

Title 2 of the General Accounting Office's "Policies and Procedures Manual for
Guidance of Federal Agencies," August 1987

DoD Instruction 7220.9, "DoD Accounting Policy," October 1981

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DoD Directive 1322.16, "Veterans' Educational Assistance Act of 1984 (GI Bill),"
March 25, 1985

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

DoD Instruction 1322.17, "Montgomery GI Bill for the Selected Reserve,"
November 21, 1991

Army Regulation 621-202, "Army Educational Incentives and Entitlements,"
February 3, 1992

Army Regulation 135-7, "Army National Guard and Army Reserve Incentive
Programs," February 28, 1992

Air Force Reserve Regulation 213-1, "The Montgomery GI Bill (MGIB) Act of 1984,"
November 15, 1991

Air Reserve Personnel Center Regulation 213-1, "The Montgomery GI Bill (MGIB)
Act of 1984," April 27, 1992

Marine Corps Order 1560R.30A, "Montgomery GI Bill - Reserve (MGIB-R),
August 18, 1992

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Force Management and Personnel),
Washington, DC
Deputy Assistant Secretary of Defense (Military Manpower and Personnel Policy),
Washington, DC
Defense Manpower Data Center, Arlington, VA
Defense Manpower Data Center, Monterey, CA
Office of the Actuary, DoD, Arlington, VA
Comptroller of the Department of Defense, Washington, DC
Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Accounting Office, Arlington, VA
Defense Finance and Accounting Service Center, Denver, CO
Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Finance and Accounting Service Center, Kansas City, MO

Department of the Army

Army Comptroller Division, National Guard Bureau, Washington, DC
Comptroller Division, Office of the Chief of Army Reserve, Washington, DC
Army Reserve Personnel Center, St. Louis, MO
Army Enlisted Records Center, Fort Benjamin Harrison, Indianapolis, IN
Army Guard Personnel Center, Alexandria, VA

Department of the Navy

Bureau of Naval Personnel, Arlington, VA
Naval Reserve Personnel Center, New Orleans, LA
Deputy Chief of Staff for Finance, Naval Reserve Force, Budget Division,
New Orleans, LA
Manpower and Reserve Affairs, Personnel Management Division, Quantico, VA

Department of the Air Force

Air Force Military Personnel Center, San Antonio, TX
Air Force Reserve Personnel Center, Denver, CO

Appendix B. Organizations Visited or Contacted

Marine Corps

Headquarters, Marine Corps, Washington, DC

Non-Defense Federal Organizations

National Personnel Records Center, St. Louis, MO
Veterans Administration Processing Center, Hines, IL
Veterans Administration Regional Offices:

- Atlanta, GA
- Buffalo, NY
- Chicago, IL
- Cleveland, OH
- Denver, CO
- Houston, TX
- Huntington, WV
- Indianapolis, IN
- Jackson, MS
- Muskogee, OK
- Nashville, TN
- New Orleans, LA
- Philadelphia, PA
- St. Louis, MO
- St. Paul, MN
- Salt Lake City, UT
- San Francisco, CA

Appendix C. Report Distribution

Office of the Secretary of Defense

Secretary of Defense
Deputy Secretary of Defense
Comptroller and Chief Financial Officer of the Department of Defense
Assistant Secretary of Defense (Force Management and Personnel)
Assistant Secretary of Defense (Reserve Affairs)
Assistant to the Secretary of Defense for Public Affairs

Department of the Army

Auditor General, Army Audit Agency
Inspector General, Department of the Army
Chief, Army Comptroller Division, National Guard Bureau
Chief, Comptroller Division, Army Reserve

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Director, Naval Audit Service
Deputy Chief of Staff for Finance, Naval Reserve Force

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service-Cleveland Center
Director, Defense Finance and Accounting Service-Denver Center
Director, Defense Finance and Accounting Service-Indianapolis Center
Director, Defense Finance and Accounting Service-Kansas City Center

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Manpower and Personnel, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Military Personnel and Compensation, Committee on
Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

**Part V - DoD Education Benefits Trust
Fund Financial Statements for
FY 1992**

DoD Education Benefits Fund Financial Statements for FY 1992



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

APR 8 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Printed Financial Statements on FY 1992
Financial Activity

Attached are printed financial statements on FY 1992 financial activity for the Department of Defense reporting entities listed below. The printed copies are bound, have a common typeset and have been edited by the Defense Finance and Accounting Service - Indianapolis Center. The attached statements encompass the following reporting entities:

- Department of the Army (all funds and accounts)
- Department of the Navy (revolving and trust funds)
- Department of the Air Force (all funds and accounts)
- Defense Logistics Agency Revolving Funds
- Pentagon Reservation Maintenance Revolving Fund
- Defense Revolving Funds (Army as Executive Agent)
- DoD Military Retirement Trust Fund
- DoD Education Benefits Fund
- National Security Education Trust Fund
- Defense Commissary Surcharge Collections Account
- Defense Security Assistance Agency

My staff is available to provide additional assistance and information, if needed. Additionally, the Department will continue to work with your staff to make such adjustments or improvements as may be identified, and appropriate, to enhance, explain, or more fairly present the assets, liabilities, and net financial position shown in the attached unaudited financial statements.

Edwin Tucker
Acting Chief Financial Officer

Attachments

DOD Education Benefits Fund

Chief Financial
Officer Annual
Financial Statement
Report
Fiscal Year 1992

March 31, 1993

DoD Education Benefits Fund Financial Statements for FY 1992

DOD EDUCATION BENEFITS FUND

Table of Contents

DOD Education Benefits Fund Overview	1
DOD Education Benefits Fund Principal Statements	9
DOD Education Benefits Fund Footnotes	19

***DOD EDUCATION BENEFITS
FUND***

OVERVIEW

DoD Education Benefits Fund Financial Statements for FY 1992

Overview 3

INTRODUCTION

The "Veterans Educational Assistance Act of 1984" (Public Law 98-525), established a new educational assistance program for the armed forces. The program provides basic educational benefits to persons entering active duty, with incentives for hard-to-fill occupations, and potential supplements for additional service. The program also includes benefits to Selected Reservists who take on new or additional six-year obligations. A description of the benefits appears in Appendix A.

A unique feature of the law is that all but the basic active duty program is prefunded. A Department of Defense Education Benefits Fund was established under the Department of the Treasury. Each month the Secretary of Defense deposits in the Fund an amount equal to the present value of the benefits for persons entering the prefunded programs in the preceding month. These present values, or "normal costs" as they are termed by the legislation, are estimated using methods and assumptions approved by the Department of Defense Education Benefits Board of Actuaries.

It is the purpose of this publication to report the normal costs, unfunded liabilities (or surpluses), and amortization schedules for the prefunded programs and to describe the methods and assumptions used.

The valuation is based on the status of the programs as of September 30, 1991.

VALUATION DATA

The valuation data are taken from files maintained at the Defense Manpower Data Center (DMDC). Data on users and potential users of the Chapter 30 (active duty) and Chapter 106 (Reserve) programs are taken from the GI Bill data base.

An overview of the number of persons in the programs and their status follows.

Chapter 30 "Kicker" Program

	Number of Persons	
	As of September 30 1991	1990
On Active Duty in "Kicker" Programs		
Army 2-year ¹	20,867	14,115
Army 2-year, w/2 years of college	161	92
Army 3-year	19,221	16,009
Army 4-year	23,780	15,270
Navy 2-year	511	377
Navy 4-year	1322	528

DoD Education Benefits Fund Financial Statements for FY 1992

4 Overview

	Number of Persons As of September 30	
	1991	1990
No Longer Active, but Eligible Has Not So Far Used the Benefit		
Army 2-year ¹	8,496	7,917
Army 2-year, w/2 years of college	239	274
Army 3-year	8,735	6,762
Army 4-year	6,733	6,592
Navy 2-year	740	1,569
Navy 4-year	45	
Has Used the Benefit		
Army 2-year	15,729	13,118
Army 2-year, w/2 years of college	925	852
Army 3-year	11,198	7,725
Army 4-year	6,261	4,302
Navy 2-year	2,877	2,470
Navy 4-year	1	
Chapter 30 Involuntary Separatees ²		
Involuntary Separatees Enrolled	174	
Has Used the Benefit		
Chapter 106 Program		
Eligible for the Benefit		
Army National Guard	208,818	191,946
Army Reserve	94,883	84,715
Navy Reserve	42,281	42,289
Marine Corps Reserve	26,879	23,710
Air Force National Guard	61,056	55,411
Air Force Reserve	52,545	39,200

¹ Includes the "2+2+4" test program

² This includes only those involuntary separatees whose basic benefit is paid from the Department of Defense Education Benefit Fund. This includes involuntary separatees who entered the service after December 31, 1976 and before July 1, 1985.

DoD Education Benefits Fund Financial Statements for FY 1992

Overview 5

NORMAL COSTS

To determine the normal cost, the Department of Defense Office of the Actuary uses a computer model that calculates the present value of benefits for a hypothetical cohort of new entrants. The model follows the cohort through certain states or statuses, using rates of retention, etc. If benefits are paid from one of those states, they are discounted using an interest rate back to the time of entry.

Rates include probabilities, such as the probability of leaving the service or the probability of using a benefit. Also included in the rates are the average benefit amounts. All the rates are described in Appendix B.

Using these rates and an interest discount of 8.0%, the fiscal 1993 per capita normal costs for the Chapter 30 and Chapter 106 programs are given below. The fiscal 1992 normal costs, which assumed an interest rate of 8.0%, is given for comparison.

	Fiscal 1993	Fiscal 1992
Chapter 30		
Army 2-year program	\$2,270	\$2,235
Army 2-year program with 2 years of college ³	3,696	3,824
Army 3-year program	2,276	2,266
Army 4-year program	1,656	1,536
Navy 2-year program ¹	2,584	2,468
Navy 4-year program	1,663	1,553
Chapter 106		
Army National Guard	\$731	\$940
Army Reserve	594	818
Navy Reserve	715	898
Marine Corps Reserve	804	1,091
Air Force National Guard	606	806
Air Force Reserve	237	404

³ No longer open to new entrants.

The Chapter 106 normal costs are applied to Reservists who make six-year commitments and thereby may qualify for the Chapter 106 benefit. The normal costs take into account several recent benefit improvements. Reservists who signed a six-year contract

DoD Education Benefits Fund Financial Statements for FY 1992

6 Overview

after October 1, 1990 are eligible for vocational or technical training as well as for the previously available educational benefits. In addition, benefits increased to \$170 a month for those going to school full-time beginning in October 1991, with less than full-time benefits increasing proportionately. Beginning in October 1993, Chapter 106 benefits may increase with the Consumer Price Index (CPI) or revert to the levels in place before October 1, 1991, at the option of the Secretary of Defense. For this valuation, we assume benefits stay level after October 1993.

The computation of the Chapter 106 normal cost is based on a the same modeling technique used in the previous valuation. Prior to that, six-year contracts were projected and normal costs were developed using decrement rates appropriate for six-year contracts. Here, persons eligible for the benefit were projected and decrement rates appropriate for them were used. A preliminary normal cost was developed for eligibles. This was adjusted by the number of eligibles per contract for each reserve component and by projected interest earnings between contract date and the date of eligibility.

A table presenting historical Chapter 30 and Chapter 106 normal costs appears in Appendix C.

UNFUNDED LIABILITY OR SURPLUS

The unfunded liability (or surplus) represents the difference between the amount of money in the fund on the valuation date and the present value of benefits that currently eligible military members are projected to receive. If the fund exceeds the present value, there is a surplus. Otherwise there is a liability.

The present value of benefits is based here only on people already in the system. New entrants after the valuation date are not included. For this reason, the population is called a "closed" group. The reserve and active force closed group populations are described in Appendix B.

Determining the present value of benefits for the closed group is similar to determining a normal cost. In both cases there is a model with various states or statuses and rates that represent the probability of moving from one state to another. If benefits are paid to persons in one of the states, the benefits are discounted for interest.

What distinguishes the normal cost determination from the closed group valuation is the initial population. For the normal cost, we start with 100,000 hypothetical persons at the point of entry in each program. This is either the point of enrolling in a "kicker" program for the Chapter 30 benefit or the point of signing the six-year enlistment, reenlistment, or extension for one of the reserve components under Chapter 106. All other model states start out with zero participants.

DoD Education Benefits Fund Financial Statements for FY 1992

Overview 7

For the closed group valuation, the initial population comes from a census of actual people that were in the various states on the valuation date.

A second difference between the normal cost determination and the closed group valuation is the point in time to which benefits are present valued. For the normal cost, present values are discounted to the point of entry. For the closed group valuation, values are discounted to the valuation date. As mentioned, the valuation date used here is September 30, 1991.

Using these censuses and the rates (given in Appendix B), we computed the present value of benefits for the Chapter 30 "kicker" and Chapter 106 programs. The Chapter 30 involuntary separatee payments from the Fund are amortized in a special way (described in section 6) that needs no present value computation.

For Chapter 106, the present value of the benefits includes the October 1991 benefit increase but no future CPI adjustments. It includes vocational or technical benefits only for those who signed six-year contracts after the end of fiscal year 1990.

The value of assets on the valuation date (September 30, 1991) was obtained from the fund manager for the Department of Defense Education Benefits Fund. The programs' unfunded liabilities or surpluses are as follows:

CHAPTER 30 "KICKER" BENEFITS

Program	Present Value of Benefits	Assets	Unfunded Liability or (Surplus)
Army	\$279,225,226	\$350,784,827	(\$71,559,601)
Navy	13,050,334	14,080,003	(1,029,669)
Total	<u>\$292,275,560</u>	<u>\$364,864,830</u>	<u>(\$72,589,270)</u>

CHAPTER 106

Program	Present Value of Benefits	Assets	Unfunded Liability or (Surplus)
Army Nat. Guard	\$81,603,139	\$179,891,383	(\$98,288,244)
Army Reserve	51,986,428	80,720,941	(28,734,513)
Navy Reserve	19,055,729	41,407,261	(22,351,532)
M.C. Reserve	19,125,866	16,494,100	2,631,766
A.F. Nat. Guard	20,512,491	35,400,342	(14,887,851)
A.F. Reserve	13,803,553	45,634,432	(31,830,879)
Total	<u>\$206,087,206</u>	<u>\$399,548,459</u>	<u>(\$193,461,253)</u>

DoD Education Benefits Fund Financial Statements for FY 1992

8 Overview

In addition to the above eight line items there are an additional four, one for each service for involuntary separatees paid from the fund. It should be mentioned here that there are not fourteen different Department of Defense Education Benefits Funds, as this might suggest. However, we do intend to keep track of the transactions by each of the fourteen categories. So it is possible to make additions, deduct expenditures, carry forward assets, and allocate earnings by category.

The Chapter 30 "kicker" program assets cannot be further subdivided. Although the normal cost contributions are recorded by program, the expenditures obtained from the Department of Veterans Affairs are not.

AMORTIZATION OF THE UNFUNDED LIABILITY OR SURPLUS FOR THE "KICKER" AND CHAPTER 106 PROGRAMS

On July 23, 1992 the Department of Defense Education Benefits Board of Actuaries decided to treat the previously determined payments for fiscal 1993 (decided at the July 17, 1991 meeting) as locked-in. They further decided to project the surplus or unfunded liability to the end of fiscal 1993 and amortize that over 10 years at 8.0%. As in the past the unfunded liability or surplus would be determined afresh each year (eg. previously scheduled payments beyond fiscal 1993 ignored). In subsequent years the same process would be followed. The fiscal 1995 payments would be determined in the summer meeting of 1993, etc. Naturally, the Board would retain the power to change this process if something showed up in the valuation or if the benefit were changed.

Positive unfunded liabilities are amortized with a payment made at the beginning of each fiscal year. Surpluses are amortized by means of an adjustment to the per capita costs. Both take into account the budgeted number of enrollments (Chapter 30) and six-year enlistments, reenlistments, or extensions (Chapter 106).

***DOD EDUCATION BENEFITS
FUND***

PRINCIPAL STATEMENTS

DoD Education Benefits Fund Financial Statements for FY 1992

Principal Statements 11

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Dollars)

ASSETS	1992
1. Financial Resources:	
a. Fund Balances with Treasury (Note 2)	\$2,809
b. Cash	
c. Foreign Currency	
d. Other Monetary Assets	
e. Investments, Non-Federal	
f. Accounts Receivable, Net - Non-Federal	
g. Inventories Held for Sale, Net	
h. Loans Receivable, Net - Non-Federal	
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale	
k. Other, Non-Federal	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal (Note 3)	17,171,094
(2) Loans Receivable, Federal	
(3) Investments, Federal (Note 4)	675,153,001
(4) Other, Federal	
m. Total Financial Resources	<u>\$692,326,904</u>
2. Non-Financial Resources:	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale	
c. Property, Plant and Equipment, Net	
d. Other	
e. Total Non-Financial Resources	<u> </u>
3. Total Assets	<u><u>\$692,326,904</u></u>

LIABILITIES

4. Funded Liabilities
 - a. Accounts Payable, Non-Federal
 - b. Accrued Interest Payable
 - c. Accrued Payroll and Benefits
 - d. Accrued Entitlement Benefits
 - e. Lease Liabilities
 - f. Debt
 - g. Guarantees Payable
 - h. Other Funded Liabilities, Non-Federal

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

12 Principal Statements

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Thousands)

LIABILITIES Continued	1992
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal	
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities, Federal	
j. Total Funded Liabilities	
5. Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities	
c. Pensions and Other Actuarial Liabilities	
d. Other Unfunded Liabilities	
e. Total Unfunded Liabilities	
6. TOTAL LIABILITIES	
NET POSITION	
7. Fund Balances:	
a. Revolving Fund Balances	
b. Trust Fund Balances (Note 5)	\$692,326,904
c. Appropriated Fund Balances	
d. Total Fund Balances	
8. Less Future Funding Requirements	
9. Net Position	\$692,326,904
10. Total Liabilities and Net Position	\$692,326,904

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

Principal Statements 13

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Thousands)

REVENUES AND FINANCING SOURCES	1992
1. Appropriations Expensed	
2. Revenues from Sales of Goods	
a. To the Public	
b. Intragovernmental	
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	\$57,046,036
5. Taxes	
6. Other Revenues and Financing Sources (Note 6)	41,329,942
7. Less: Taxes and Receipts Returned to the Treasury	
8. Total Revenues and Financing Sources	<u>\$98,375,978</u>
 EXPENSES	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	
10. Program or Operation Expenses (Note 7)	170,462,363
11. Depreciation	
12. Bad Debts and Write-offs	
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses	
15. Total Expenses	<u>\$170,462,363</u>
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	
17. Plus (Minus) Adjustments:	
a. Extraordinary Items	
b. Prior Period Adjustments	
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	<u>(\$72,086,385)</u>
19. Plus: Unfunded Expenses	
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

14 Principal Statements

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Thousands)

EXPENSES Continued

1992

21. Net Position, Beginning Balance	\$764,413,289
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(72,066,385)
23. Plus (Minus) Equity Transfers	
24. Net Position, Ending Balance	<u>\$692,326,904</u>

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

Principal Statements 15

Department/Agency: DOD Education Benefits Fund
 Reporting Entity: Principal Statements
 Statement of Cash Flows (Indirect)
 for the Period Ended September 30, 1992
 (Thousands)

Cash Flows from Operating Activities:	1992
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$72,086,385)</u>
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	
3. Decrease (Increase) in Accounts Receivable	2,473,817
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	
6. Increase (Decrease) in Accounts Payable	
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	
9. Depreciation and Amortization	
10. Other Unfunded Expenses	
11. Other Adjustments	
12. Total Adjustments	<u>\$2,473,817</u>
13. Net Cash Provided (Used) by Operating Activities	<u>(\$69,612,568)</u>
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	
16. Purchases of Investments	69,615,114
17. Purchases of Property, Plant and Equipment	
18. Net Cash Provided (Used) by Non-Operating Activities	<u>\$69,615,114</u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	
22. Net Appropriations	

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

16 Principal Statements

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Thousands)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	\$2,546
30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	\$263
31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$2,809</u>

The accompanying notes are an integral part of these statements.

DoD Education Benefits Fund Financial Statements for FY 1992

Principal Statements 17

Department/Agency: DOD Education Benefits Fund
Reporting Entity: Principal Statements
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1992
(Thousands)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
Education Benefits	\$845,618,173	\$170,462,363		\$170,462,363
Totals	<u><u>\$845,618,173</u></u>	<u><u>\$170,462,363</u></u>	<u><u> </u></u>	<u><u>\$170,462,363</u></u>

Budget Reconciliation

A. Total Expenses	\$170,462,363
B. Add:	
(1) Capital Acquisitions	
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	<u> </u>
D. Expended Appropriations	
E. Less Reimbursements	
F. Expended Appropriations, Direct	<u><u>\$170,462,363</u></u>

The accompanying notes are an integral part of these statements.

***DOD EDUCATION BENEFITS
FUND***

FOOTNOTES

DoD Education Benefits Fund Financial Statements for FY 1992

Footnotes 21

Notes to the Financial Statements DoD Education Benefits Fund September 30, 1992

Note 1 Significant Accounting Policies:

The DoD Education Benefits Fund was authorized in PL98-525 for the accumulation of funds in order to finance a new educational assistance program which includes benefits for both active duty (additional benefits above basis benefits) and Selected Reserve personnel. The accounting is accomplished by the Defense Finance and Accounting Service - Defense Accounting Office - Cleveland Center. Reports are prepared from Trial Balance data generated by an automated system on the accrual basis. Balances are reconciled monthly with U.S. Treasury records.

The program is funded by:

- (1) Actuary determined per capita normal cost multiplied by number of eligible members Funds received from active duty and reserve pay appropriations.
- (2) Interest on investments.

The DOD Education Benefits Fund statements do not show a liability for the present value of accrued benefits analogous to the present value of accrued benefits for the Military Retirement Fund. This is because of the nature of the way that military members earn educational benefits and because of the method of funding the benefits. Chapter 106 benefits are earned by a six-year commitment, by the benefits can be received prior to the completion of the six years. Chapter 30 benefits are earned by varying periods of active duty service, but they are funded by a lump-sum contribution at the time the military member enrolls in a "kicker" program. The DOD Actuary calculates the present value of future benefits, as shown in the introduction, but there is no calculation of what portion of the future benefits has been accrued on the valuation date. The timing of when these benefits accrue is not clear.

Note 2 Fund Balances with Treasury:

Trust Funds	\$2,809
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Note 3 Accounts Receivable, Federal:

Excludes receivables from Services for 1992 of \$90,691.47 Chapter 30 Category 3 payments reported as an expense. All future reports will classify these transactions as receivables.

DoD Education Benefits Fund Financial Statements for FY 1992

22 Footnotes

Note 4 Investments:

	(1) Face Amount	(2) Market Value	(3) Amortization Method	(4) Unamortized Premium/ (Discount)	(5) Investment Net (Book Value)
B. Federal Securities					
Non-Marketable	\$629,816,000	\$731,228,481	Effective Int.	\$45,337,001	\$675,153,001

Note 5 Fund Balances:

Cumulative Results of Operations (Trust Funds)	\$692,326,904
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Note 6 Other Revenues and Financing Sources:

	1992	1991
(1) Per Capita normal cost Contributions from Services	\$41,329,942	\$80,276,393

Note 7 Program or Operating Expenses:

A. Operating Expenses by Object Classification: See Note 3

	1992	1991
Other-Education Benefits	\$170,462,363	\$136,264,783

Part VI - Management Comments

Assistant Secretary of Defense for Force Management and Personnel Comments



FORCE MANAGEMENT
AND PERSONNEL

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C 20301-4000

28 MAY '92

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR ANALYSIS & FOLLOWUP

SUBJECT: DoD Inspector General's Report on the Education Benefits Trust Fund financial statements for FY 1992 (Project No. 2FH-2009)

Force Management & Personnel (FM&P) concurs with the identification of shortcomings in reference to when contributions should be made to members in Part II - Internal Controls. Certainly, the actuary's assumption as to what event precipitates payment of a contribution should agree with how money is contributed to the Fund.

On page 3 under Internal Category Controls, the section on the actuary's role could be stated better. The current description would be more applicable to the actuary's responsibilities under the Military Retirement Fund than under the DoD Education Benefits Fund. Here is a suggested revision:

"o Actuarial: The DoD Actuary's policies, procedures, and internal controls relating to actuarial projections, including calculation of basic costs, calculation of surpluses and deficiencies, and amortization of surpluses and deficiencies."

FM&P has no comments on Part III - Compliance with Laws and Regulations.

Jeanne B. Fites
Acting Deputy Assistant Secretary
(Requirements and Resources)

Assistant Secretary of Defense for Reserve Affairs Comments



RESERVE AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

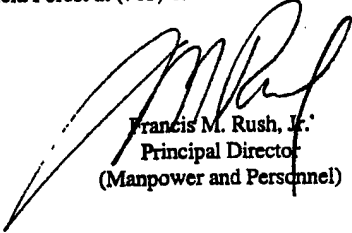
WASHINGTON, DC 20301-1500

41 JUN 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DOD INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with Laws and
Regulations for the DoD Education Benefits Trust Fund Financial Statements
for FY 1992 (Project No. 2FH-2009)

Attached please find our comments as requested in your memorandum dated
May 14, 1993, subject as above. For further information on this response, please contact
Lieutenant Colonel Patricia Forest at (703) 695-7459.


Francis M. Rush, Jr.
Principal Director
(Manpower and Personnel)

Attachment:
As stated

Assistant Secretary of Defense for Reserve Affairs Comments

Department of Defense Inspector General Office Project No. 2FH-2009

Draft Reports on Internal Controls and Compliance with Laws and Regulations for the
DoD Education Trust Fund Financial Statements for FY 1992

General - We appreciate the opportunity to provide comments on this draft report.

Part II - Internal Controls Contributions to the Education Fund

The Office of the Comptroller, DoD & OASD(RA) agree that DoD Instruction 1322.17 and DoD Manual 7220.9-M are consistent with respect to component contributions to the Fund. DoD Manual 7220.9-M does not state that a contribution is required for every 6-year contract signed. The DoD Comptroller's Policy Office concurs with our interpretation of their manual. Both offices agree that an individual can become eligible only once, and correspondingly, only one contribution to the Fund is required. Also, the formula used by the Office of The Actuary, DoD also reflects that a contribution is made to the fund only for the first six year enlistment. In sum, all three offices now are in agreement.

Funding Requirements

The comments above with respect to contributions to the fund also apply to this section of the draft report ..."

Accuracy of Enlisted and Officer Control Database

The following comments apply to the reserve component procedures discussed in this section of the draft report.

Air National Guard - Since this audit, the Air National Guard has reviewed methods and reestablished the criteria used in computer edits to comply with the correct data collection procedures for eligibility.

Air Force Reserve - During the audit, the Air Force Reserve reviewed their methods for identifying new eligibles for the MGIB for the Selected Reserve and agreed with auditors to change the Personnel Data System (PDS) program inquiry logic used to identify new eligibles. Only those personnel with the gain codes recommended by the auditors are being counted in the numbers being reported to DFAS on a monthly basis.

Marine Corps Reserve - While the Marine Corps is experiencing an influx in its Ready Reserve as a result of SSB/VSI, these individuals would only be eligible for the MGIB if they execute 6-year contracts to affiliate with the Selected Reserve, and the level of funding would be raised only for this group. VSI/SSB recipients have no obligation to affiliate with the Selected Reserve. Although the number of prior service Marines who have requested and are authorized a reenlistment specifically for the MGIB for the Selected Reserve Program has been minimal, the Marine Corps is developing a computer program that identifies the all former active duty personnel who execute a 6-year enlistment in the Selected Marine Corps Reserve. This computer program will allow them to be counted for the MGIB for the Selected Reserve monthly per capita payments to the Defense Education Benefit Trust Fund.

Comptroller of the Department of Defense Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUN 16 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, ODODIG

SUBJECT: Draft Reports on Internal Controls and Compliance
with Laws and Regulations for the DoD Education
Benefits Trust Fund Financial Statements for FY 1992
(Project No. 2FH-2009)

Attached, in response to a request for comments on the
subject draft report, are this office's comments on the subject
draft report.

Mr. Oscar Covell is the staff contact for this office. He
may be reached at 697-6149.

A handwritten signature in dark ink, appearing to read "Alvin Tucker".

Alvin Tucker
Acting Chief Financial Officer

Attachment

cc:
ASD(RA)
DFAS

CHIEF FINANCIAL OFFICER COMMENTS ON
DRAFT REPORTS ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND
REGULATIONS FOR THE DoD EDUCATION TRUST FUND FINANCIAL
STATEMENTS FOR FY 1992
(PROJECT NO. 2FH-2009)

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- DODIG Finding: Contributions to the Education Fund. DoD has issued conflicting guidance on the requirements of making contributions to the Fund. DoD Instruction 1322.17, "Montgomery G.I. Bill (MGIB) for the Selected Reserve," November 21, 1991, states that Reserve Components are not required to make contributions for members who are already eligible for Selected Reserve benefits. The instruction contradicts Chapter 47, DoD Manual 7220.9-M, "DoD Accounting Manual," October 6, 1987, which requires a contribution for every 6-year contract signed for an enlistment, reenlistment, or extension contract. As a result, the Fund did not receive all contributions that were due and lost interest on unpaid contributions. Also, the actuarial computations of the per capita normal cost may be inaccurate. The normal cost is an actuarially determined amount that the Services contribute for each 6-year contract signed.

DoD RESPONSE: Concur. The different wording in the guidance cited could perhaps be misinterpreted and lead to unfunded eligibilities. This office will work with the Assistant Secretary of Defense (Reserve Affairs) on this issue.

- DODIG Finding: Funding Requirements. The Fund is required by law to be funded on an actuarially sound basis. The Assistant Secretary of Defense (Force Management and Personnel) has given the DoD Comptroller the authority to provide guidance on financing the Fund. The DoD Comptroller's guidance clearly requires the Services to make contributions for each 6-year contract signed, regardless of whether the individual is already eligible for education benefits. The DoD Actuary's formula for determining the normal cost is based on the premise that contributions are made for each 6-year contract signed. The DoD Actuary then adjusts the normal cost estimate by taking into account the probability that not all members who sign 6-year contracts will collect benefits. However, the Services' failure to follow the "DoD Accounting Manual" could affect the actuarial soundness of the Fund.

DoD RESPONSE: Concur. This office will work with the Services on this issue.

Comptroller of the Department of Defense Comments

- **DODIG Finding: Accuracy of Enlisted and Officer Contract Data Base.** The Air National Guard, the Air Force Reserve, and the Marine Corps Reserve made contributions to the Fund based on erroneous counts from computer data bases. The DoD Components' data bases (which account for 6-year enlistment and commission contracts) were not properly programmed, or data were improperly coded. Air National Guard officers were counted more than once, officers who were not eligible for the program were counted as eligible, and enlisted members who signed a 6-year contract in FY 1992 were not counted in FY 1992. For the Air Force Reserve, numerous gain codes had been improperly entered in the data base, causing an overstatement of the number of eligible individuals for whom contributions had been made. The Marine Corps Reserve did not count its Reservists who had transferred in from active duty. This resulted in million-dollar over- and undercontributions to the Fund. Because the errors were so large, we could not determine the correct amounts.

DoD RESPONSE: As maintenance of the Services contract data bases is the responsibility of the Assistant Secretary of Defense (Reserve Affairs), this office defers comments to the Office of the Assistant Secretary of Defense (Reserve Affairs).

- **DODIG Finding: Fund Reporting.** DoD and the DVA had not established reporting requirements for accounting information. This condition existed because the DoD and DVA interagency agreement did not address each department's responsibilities for the reporting of accounting data. During FY 1992, DoD transferred \$170,462,363 to the DVA for benefit payments. Although DVA agreed to administer the program in accordance with the law, DoD had no assurance that all funds transferred to DVA were spent. DVA also collected overpayments from benefit recipients. The accounts receivable resulting from the overpayments did not appear on DoD's accounting records. Also, DoD and the DVA did not reconcile their accounting records to ensure that the financial statements were complete and accurate. As a result, DoD had no assurance that Fund assets were used as required by law, and that all financial information was reported to DoD and included in the statements.

DoD RESPONSE: Concur. The DoD will work with DVA to establish Fund reporting requirements for accounting information.

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